DOCUMENT RESUME

ED 255 164 HE 018 220

AUTHOR Green, Joslyn, Ed.
TITLE Catalog of Changes. Incentives for Quality and Management Flexibility in Higher Education.
INSTITUTION Education Commission of the States, Denver, Colo.
SPONS AGENCY Fund for the Improvement of Postsecondary Education (ED), Washington, DC.
PUB DATE 84
NOTE 73p.
AVAILABLE FROM Education Commission of the States, 1860 Lincoln Street, Suite 300, Denver, CO 80295 ($8.00 per copy, quantity discounts available).
PUB TYPE Reference Materials - Directories/Catalogs (132) -- Reports - Descriptive (141)

EDRS PRICE MF01/PC03 Plus Postage.
DESCRIPTORS Board of Education Policy; *Change Strategies; College Administration; College Planning; *Educational Quality; Expenditures; *Financial Policy; Governance; Governing Boards; *Higher Education; Resource Allocation; *State Boards of Education; *Statewide Planning
IDENTIFIERS Colorado; Connecticut; Florida; Idaho; Kentucky; Louisiana; Maryland; Massachusetts; Minnesota; Missouri; Ohio; Oklahoma; Tennessee; Virginia; Washington

ABSTRACT

Policy changes in state higher education since the early 1980s are described. For each innovation, the problem and impetus for change are described, as well as the results. Contact persons and some publications are identified. While two states addressed both quality and flexibility in fiscal reform, 13 states had incremental reforms addressing either quality or flexibility. The innovations concern: broad authority for governing boards (Colorado), central planning of major change (Minnesota), institutional control of tuition (Connecticut), academic scholars program and fund (Florida), permanent funding for faculty positions (Florida), reviewing programs and funding improvements (Florida), lump sum rather than line-item appropriations (Idaho), campus control rather than central accounting and procurement (Kentucky), program review's effect on allocations (Louisiana), easing of budget regulations (Maryland), a unitary board's unitary budget (Massachusetts), program review as a budget component (Missouri), better prepared freshmen (Ohio), coordinated data on programs and finances (Oklahoma), improving student performance (Tennessee), relating funding to enrollment (Tennessee), special funds for excellence (Virginia), and defining minimum expenditures to maintain quality (Washington). (SW)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED255164

4948

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

ECS

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

Order copies of this catalog, at $8.00 each, from the ECS Distribution Center in Denver. Ask for **Catalog of Changes: Incentives for Quality and Management Flexibility in Higher Education.** Discounts available on large quantities.

BEST COPY AVAILABLE

CATALOG OF CHANGES

Incentives for Quality and Management Flexibility in Higher Education

1984

Project Directed by:
John K. Folger
Co-Director, Center for Education Policy
Vanderbilt University

Aims C. McGuinness Jr.
Assistant Executive Director for
Postsecondary Education
Education Commission of the States

Edited by:
Joslyn Green
Education Commission of the States

CONTENTS

INTRODUCTION 1

1. BROAD POLICY CHANGES 5

Broad Authority for Governing Boards: Colorado 7

Central Planning of Major Change: Minnesota 13

2. CHANGES IN SPECIFIC POLICIES 19

Institutional Control of Tuition: Connecticut 21

Academic Scholars Program and Academic Scholars Fund: Florida 25

Permanent Funding for Faculty Positions: Florida 29

Reviewing Programs and Funding Improvements: Florida 31

From Line-Item Appropriations to a Lump Sum: Idaho 35

From Central Accounting and Procurement to Campus Control: Kentucky 39

Program Review Affects Allocations: Louisiana 43

Budget Regulation Eased: Maryland 45

A Unitary Board Submits a Unitary Budget: Massachusetts 51

Program Review to be a Budget Component: Missouri 55

Better Prepared Freshmen: Ohio 57

Data on Programs and Finances Converge: Oklahoma 61

Improving Student Performance: Tennessee 63

Relating Funding to Enrollment: Tennessee 69

Special Funds for Excellence: Virginia 73

Defining Minimum Expenditures to Maintain Quality: Washington 75

INDEX 79

INTRODUCTION

How can we do a better job of educating students at state colleges and universities? Are there better ways to allocate funds for public higher education — better processes, better structures, better programs?

To help policy makers find answers to large questions like these and their complicated corollaries, the Education Commission of the States has assembled information on innovations various states have undertaken in the last several years. Discussions of theory, conceptual frameworks, or historical context are doubtless useful to policy makers, too. But the emphasis in this catalog is not on theory but on practice — not on what might possibly be done to raise quality or increase flexibility in higher education but on what has actually been done since the early 1980s.

The purpose of this catalog, then, is to present practical information in a practical form.

Each entry describes an innovation in enough detail to help policy makers understand some of the special circumstances that made it possible in a given state or that shaped its development. In general, each entry describes "The Problem," "The Impetus for Change," "The Changes" and "Results." Each also lists "Resources" — sometimes background publications but more often key people to contact for more information.

The structure of the catalog facilitates comparisons among innovations. The title of each entry summarizes an innovation and lists the state in which the innovation has taken place. Key words listed at the beginning of the entry characterize the types of change described in the entry. The catalog is indexed by these key words. Maryland, for example, has sought to increase flexibility by giving state institutions of higher education authority to transfer funds and positions among programs. So some of the key words listed in the Maryland entry are "flexibility," "decentralized authority," and "transfer of funds and positions." Under "flexibility" in the index, the reader will find references not only to Maryland but also to other states that have tried to increase flexibility in other ways.

Entries are grouped in two sections, the first covering states where both quality and flexibility have been addressed in comprehensive fiscal reform of higher education, the second covering states where incremental reforms have addressed either quality or flexibility.

Quality and flexibility are, of course, not congruent notions, although they at times overlap. Both are covered in this catalog because the information was collected as part of two projects supported by the Fund for the Improvement of Education. The project at the Education Commission of the States was concerned with flexibility to allow colleges and universities to use funds more effectively. The other

project, at Vanderbilt University, examined ways that state fiscal policy could provide more incentives for quality improvement.

Interest in increased management flexibility, an ongoing concern of public higher education leaders, has been given new impetus in the last few years of fiscal austerity. About 10 states developed extensive fiscal, personnel and other controls over public institutions in the 1960s and 1970s. In marked contrast are about 12 or 15 states where institutional leaders have retained a great deal of autonomy in managing resources. The majority of states fall along a continuum between the extremes of flexibility and control. The evidence is strong that institutional operations are most effective when spending decisions are made close to operations, and when officials have the responsibility for managing their own resources. The catalog describes cases of increased flexibility, and some of the ways this flexibility has benefited institutional operations.

The quality of education has been almost entirely an institutional responsibility. States have provided resources but have left academic decisions almost entirely in the hands of faculty and campus administrators. Most state fiscal policies promoted growth and broad student access; they were not designed to encourage or reward improved quality. A number of states have recognized that the fiscal policies appropriate for the expansion of higher education in the 1960s and 1970s are not appropriate for the stable or declining enrollments predicted for the 1980s. Some of these states are now encouraging quality improvement. The most common approaches have been (1) to provide special funds for quality improvement, either for specific programs like engineering or science or for general areas like libraries, (2) to deemphasize enrollment as a basis for appropriations and (3) to provide special endowments or matching grants to attract top scholars and researchers.

Several states have adopted policies that make student choice and the operation of the market more influential in the allocation of resources. They did this by making student tuition a larger share of institutional revenues and by increasing student aid. The "market approach" has been controversial because dependence on student choice provides a strong incentive to institutions to keep enrollments up by lowering standards. The market approach may also lead to curriculum changes that reduce the coherence and rigor of some programs. On the other hand, competition can lead institutions to use resources more effectively and keep curricula relevant to the real interests of students. Examples of all these kinds of changes will be found in the catalog cases.

The information condensed in catalog entries was assembled in case studies prepared by Augenblick, Van de Water and Associates, the Education Commission of the States; the National Association of College and University Business Officers and Vanderbilt University. Funding came from The Fund for the Improvement of Postsecondary Education. Those case studies are available from ECS in working paper

form. "Fiscal Policies to Improve Education," by John Folger of Vanderbilt University, presents not a case study but an explanation of why fiscal changes in higher education have taken place when and as they have; policy makers may find that paper a useful introduction to issues of quality and flexibility.

The studies were conducted primarily during 1983 and early 1984. Undoubtedly some of the situations have since changed. Persons interested in the status of particular changes are urged to contact individuals listed in the resource section at the conclusion of each section. Also willing to supply information are project directors John Folger (615-322-8544) and Aims McGuinness Jr. (303-830-3614). ECS will update the catalog if interest and demand warrant.

ECS ADVISORY GROUP

Richard Allen
Associate Budget Director
University of Colorado-Boulder

James Brown
Director, Research Institute
U.S.A. Publishing Foundation for Education Research

Al W. Flowers
Executive Vice Chancellor
Maricopa County Community College College

Robert Dickeson
President
University of Northern Colorado

Arthur L. Gillis
Executive Vice President
Brandeis University

Paul Lingenfelter
Deputy Director, Financial Affairs
Illinois Board of Higher Education

Marilyn McCoy
Director of Planning and Policy Development
University of Colorado

Mark Sullivan
Assistant Commissioner
Connecticut Board of Governors

Robert K. Thompson
Vice Provost for Planning and Budgeting
University of Washington

JOINT ECS/VANDERBILT ADVISORY GROUP

Richard D. Wagner
Executive Director
Illinois Board of Higher Education

David J. Berg
Director, Management Planning and Information Services
University of Minnesota

Lyman Glenny
Professor Emeritus
University of California-Berkeley

Robert Lang
Director
Wisconsin Legislative Fiscal Office

Jerry Miller
Executive Director
National Association of State Budget Officers

Adrian Tinsley
Associate Vice Chancellor for Academic Affairs
Minnesota State University System

1. BROAD POLICY CHANGES

Broad Authority for Governing Boards: Colorado

Central Planning of Major Change: Minnesota

Several states have reviewed their fiscal policies for higher education during the early 1980s. These reviews have generally been motivated by the realization that education and economic conditions have changed, as have state priorities in higher education. Some states also realized that fiscal policies and procedures grow by accretion, which frequently leads to inconsistencies and contradictions in the ways that funds are allocated and controlled.

Two states that made comprehensive changes in their fiscal policies are Colorado and Minnesota.

The changes in Colorado came about in a fiscally conservative state that was operating under a law that limited increases in state spending to no more than 7% a year and that (in 1980) was one of the 10 states with the most detailed controls on higher education spending. Changes in policy reduced state control and gave governing boards greater authority and responsibility for managing budgets. The changes also made allocations more sensitive to the market and student choice. Colorado is now among the 10 states whose public institutions are most sensitive to student demand.

The changes in Minnesota came about in a state that historically has had a strong commitment to higher education, excess institutional capacity, and above-average support for higher education. But Minnesota also had different funding policies for different sectors of higher education, and it experienced difficulty in supporting higher education adequately during the recession of 1980-82. A commission took a comprehensive look at the financing of higher education, then made recommendations that increased (and more nearly equalized) the share of education costs paid by students. Minnesota already emphasized student choice, by funding its student aid program very well; the changes made higher education even more responsive to student choice. Although changes in Minnesota resulted from a comprehensive planning process, they left institutions a great deal of responsibility for managing resources. The University of Minnesota had always enjoyed a great deal of autonomy in its use of funds; new policies now extend some of this same flexibility to state colleges.

BROAD AUTHORITY FOR GOVERNING BOARDS: COLORADO

*Flexibility
*Quality
*Decentralized authority: Governing boards and institutions
*Lump-sum appropriation
*Transfer of funds
*Tuition set by institutions
*Retention of funds: Tuition

The Problem Almost a decade ago, the Colorado legislature, disapproving of certain actions by university presidents, strengthened control of higher education by specifying budget line items and otherwise limiting how and when state funds were spent. By fiscal 1980-81, the appropriations act specified 53 line items in the budget for campuses. General funds reverted to the state at the end of the year, savings were subject to rescission and no governing board had authority to transfer funds among line items. The legislature's Joint Budget Committee (JBC) set tuition rates and enrollment limits for institutions throughout the state. Governing boards had little flexibility. If, for example, utility costs rose unexpectedly, the boards had to seek supplemental appropriations.

The Impetus for Change These key conditions provided the impetus for change.

Legislative leadership. Members of the Joint Budget Committee wanted governing boards to have greater control over academic and fiscal decisions. These legislators were also interested in allowing student choice and the marketplace to determine program success.

Fiscal austerity. Appropriations to higher education in Colorado rose more slowly than inflation, and there was little prospect of any change. The legislature had limited expenditure increases for all state agencies to 7.7%.

Institutional readiness. Institutions wanted greater management flexibility, and governing boards wanted greater control over budgets.

The presence of a mediator. Higher education needed a single spokesperson to present its views to the legislature. The Colorado Commission on Higher Education (CCHE) performed that function throughout extended and delicate negotiations between institutions and the Joint Budget Committee.

The success of more modest changes. Small but significant changes presaged the shift toward greater autonomy. For example, three years earlier the Consortium of State Colleges was allowed to transfer funds from one campus to another. One year earlier, Pikes Peak Community College was allowed to transfer funds among line items. The Colorado School of Mines received permission to modify its tuition policies.

The Changes Governing board autonomy described in memorandums of understanding (MOUs) approved each year have replaced detailed legislative controls. The first two memorandums (for FY81-82 and FY82-83) have brought four key changes.

1. Each governing board sets the expenditure level at each institution under its jurisdiction. State appropriations are based on general fund support per resident full-time-equivalent (FTE) student.

2. The line items for each campus have been reduced to one (except line items for the Health Sciences Center of the University of Colorado, which have been reduced from 53 to 5). Each governing board has authority to transfer funds among institutions. Within an institution, transfers may be made among schools, programs and activities.

3. Each governing board establishes tuition policy, although it must comply with a JBC provision that tuition for nonresident students be at least three times as high as for residents.

4. Each governing board can retain, spend and carry-forward all cash revenues generated within its institutions.

The changes fundamentally alter the way public colleges and universities in Colorado do business and plan for the future. They are strongly influencing the success of institutions in addressing issues of quality, access and efficiency.

The Results Institutions now have new incentives to manage resources effectively. Previously, many budgeting practices were undertaken to circumvent or comply with budget restrictions. Freed from these restrictions, budget, finance, and planning officers can allocate funds to institutional priorities and change spending plans when conditions change. Administration officials and faculty now have a

greater interest in the accuracy of budget information and believe that academic planning and financial planning are better linked. Faculty and members of governing boards are now giving more attention to budget decisions.

The provisions encourage governing boards to reduce costs and reallocate funds. For example, the president of a state university felt that he was able to adjust more effectively to the governor's 2% budget rescission in the fall of 1982, and a community college transferred $40,000 from the library book fund to establish an electronic equipment laboratory.

The University of Colorado has made the greatest use of the provisions.

- Changes in tuition policies, guided by access goals for state residents, academic objectives, demographic trends and market position, have increased the share of revenues generated by tuition by 1% to 2%.

- Accelerated collection of tuition has yielded about a half million dollars in additional interest income. Reducing uncollected tuition by about half provided an additional half million dollars in revenue. At the CU Health Sciences Center, the average age of receivables has been reduced from 125 days to 90 days, which also provides additional revenue.

- Gift revenues from private donors doubled in the first year of operation under the MOU, largely because donors were assured that their gifts would not supplant state funds.

- By downgrading jobs and hiring at the lowest end of the pay scale, CU saved another million dollars in 1981-82.

The University of Colorado has instituted several programs and practices to improve the educational enterprise.

- A contingency fund (about 0.8% of total expenditures) established at the beginning of each year at each campus pays for such things as unusually high utility costs, tax revenue shortfalls or extraordinary needs for student financial aid. The contingency fund mitigates the impact of unexpected costs on academic programs.

- The university has established a new executive MBA program that is self-funded.

- The president retains 20% of excess revenues and the campus chancellor 80%. The chancellor in turn retains 20% and passes 80% through to the unit responsible for the savings. In 1981-82 the president used his funds to establish five $15,000 research grants for young, promising faculty members. He also established 10 $1,000 awards for excellence in teaching. The university has reversed the downward trend in faculty salaries and library support. It now funds them near the median of peer institutions.

- Enrichments of academic programs have included support in space science and policy computer science, artificial intelligence, telecommunications and Japanese studies. In the past few years, about $12 million in discretionary funds has been spent to improve programs.

Other governing boards and institutions, given the same autonomy through the MOU as the University of Colorado, have benefited from many of the same types of changes.

Resources

Richard Allen
Assistant to the Vice President, Budget and Finance
University of Colorado
Campus Box B-4
Boulder, Colorado 80309
303-492-5673

C. William Fischer
Vice President for Budget and Finance
University of Colorado
Boulder, Colorado 80309
303-492-6564

The Honorable Al Meiklejohn, Chairman
Senate Education Committee
c/o Lincoln Center, Suite 1600
1660 Lincoln Street
Denver, Colorado 80264
303-861-4028

Hyde, William. "Providing Public Colleges and Universities More Fiscal Autonomy: The Experience of Colorado," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1983.

McCoy, Marilyn. "The Adoption of Budget Flexibility in Colorado: Its Consequences for the University of Colorado," Management Flexibility and State Regulation in Higher Education, 1983. Available from the Southern Regional Education Board, 1340 Spring Street, N.W., Atlanta, Georgia 30309 for $3.50.

Information in this entry drawn from:

Van de Water, Gordon. "Basic State Strategies: Planning and Control or More Reliance on Market Forces," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

CENTRAL PLANNING OF MAJOR CHANGE: MINNESOTA

*Flexibility
*Quality
*Decentralized authority: Governing boards
*Average-cost funding
*Cost-related tuition
*Student aid changes
*Special funds for special purposes
*Enrollment cushion: Two-year lag

The Problem

In 1970 the Minnesota legislature used an incremental funding system, largely accepting the previous year's base and scrutinizing requests for expansion. The major factors in budget decisions were rising enrollments and an expanding state revenue base. Anticipating enrollment declines in the 1980s, the legislature in 1977 decided to freeze basic appropriations at 1977 levels and treat short-term enrollment increases as exceptions, funding them with increased tuition and later with some state support.

From 1977 to 1983, enrollments grew at all institutions, but not at the same pace. They grew by 2.5% at the University of Minnesota, by 12% at the state universities, by 22% at community colleges and by 17% at area vocational technical institutes (AVTIs) run by school districts. In the early 1980s, state appropriations for postsecondary education fell below the 1977 freeze levels. Tuition then increased both in amount and as a percentage of instructional expenditures. This made state leaders fear that access to higher education for Minnesota residents would be restricted and that the quality of education would suffer. Students at the University of Minnesota paid a different share of educational costs than students at vocational-technical institutes; funding criteria and formulas also differed by type of institution. These differences raised serious equity issues.

The Impetus for Change

The mechanisms for funding 63 public institutions of higher education that had accumulated during a period of growth proved inadequate for funding these institutions during a period of decline. The Higher Education Coordinating Board (HECB) raised long-term funding issues at its 1979 annual meeting of governing boards. This airing of issues plus support from the governor led to the formation of a task force.

The task force in December 1982 made seven recommendations, including the establishment of a 1% fund to encourage quality and productivity, the adoption of a

comprehensive cost-related tuition policy, greater responsibility for governing boards, and the implementation of average-cost funding.

The HECB adopted these recommendations, and the governor incorporated them into his FY 1983-85 biennial budget request along with recommendations for sweeping changes in the student aid system. The Minnesota legislature approved the recommendations, with some modifications, during the 1983 session, culminating a deliberate, focused and successful process of changing policy.

The Changes

Three of the major changes were designed to provide equity and access in financing. The fourth gave governing boards more authority to manage resources.

One overall funding strategy replaces a hodgepodge of approaches and special-interest preferences. It begins with average-cost-per-student funding. In essence, basic support for each public system relates to the average cost of instruction. Since costs vary by program and since mixes of programs and levels vary, the average cost for a system reflects its particular mix. Average-cost funding is tied to enrollments: state support is the product of the average cost per student times full-year-equivalent enrollment minus tuition revenue. Because Minnesota expects enrollment declines of 22% to 24% over the next 10 years, the enrollment figure used is from two years before the year being funded. This two-year lag slows both the addition and the withdrawal of public funds and gives institutions time to adjust. Because funding decreases are based on average costs, they can be expected to exceed declines in actual costs (which decrease at lesser marginal rates). Institutions continuing to show enrollment growth will be expected to fund the additional marginal costs through higher tuition revenues.

The second major change is in tuition policy. Minnesotans have agreed that tuition revenue should equal 35% of instructional costs in the three public collegiate systems (University of Minnesota, state universities, community colleges) and 25% of instructional costs in the area vocational/technical institutes (AVTIs). Because tuition levels now differ, this policy will be phased in over the next three years. Ultimately, tuition will rise substantially, by more than 70% at the AVTIs, by about 50% at the state universities, and by about 25% at the University of Minnesota. (Student groups and faculty from the state university system opposed tuition increases.)

To protect access for low-income students, substantial increases in state student financial aid are planned, and student aid policies have been revised. Under the new Design for Shared Responsibility, "...all applicants, as the primary beneficiaries of the education, will be expected to contribute at least 50% of their cost of attendance from savings, earnings, loans, or other additional assistance from institutional or private sources. The remaining cost will be met by a contribution from parents determined by a national need analysis and by the combination of federal Pell Grant and State Scholarship and Grant awards" (HECB report, July 1983). The new policy applies to Minnesota residents attending public or private institutions in the state. Although caps placed on the costs the state will recognize control the size of grants made to poor students attending expensive private institutions, faculty in the state university system nonetheless opposed the increase in grants for these students.

To improve management flexibility, the legislature gave the State University Board and the State Board for Community Colleges the same authority as the Board of Regents of the University of Minnesota and the new State Board for Vocational Technical Education. These entities now have authority to close institutions under their jurisdiction, carry over funds from the first year of the biennium, and carry up to 2% of their appropriation from biennium to biennium. Carry-forward funds will be taken into account when appropriations are made.

The Results

Too little time has elapsed to know if these changes will improve equity and protect quality and access. Education leaders support the new system, seeing as its major strengths the similar treatment of four public systems for funding purposes and a reasonable, understandable approach to the allocation of public resources.

The University of Minnesota is pleased because the new approach recognizes that costs vary by program and level. University students had borne a higher proportion of instructional costs than other students; the new tuition policy is more equitable.

The state university system has supported the changes, primarily because they increase state support. But state universities are concerned about the possible long-term effects of tuition increases on enrollment. Despite increases in student aid, administrators expect that a public undergraduate education will become difficult for middle-class families to afford.

The community colleges favor the two-year enrollment lag because it gives them time to adjust to changes. Even though some colleges expect enrollment increases, concern about the lag is not great: as one official pointed out, additional support two years later is an improvement over no additional support.

Despite enrollment increases for the last three decades, the area vocational/technical schools expect enrollment declines in the late 1980s. They are less concerned about access than the state university system is. Although tuition will go from zero to almost $1,000 per year next year, aid for vocational/technical students rose from about $600,000 to $50 million. Roughly 80% of these students receive some kind of aid, so administrators feel access has improved over the last five years.

Refinements to the new funding policies will doubtless be debated over the next few years. Improved ways to identify average costs, for example, more accurate average-cost multipliers and a possible change in the base year are likely. Whether legislators are willing to allow a governing board to close a campus or even a program remains to be seen. The first test is likely to come from the new Board for Vocational Technical Education, which is preparing to close inefficient or underenrolled programs.

Unaddressed during this reexamination of public policy was continued planning for postsecondary education. The refinement of role and mission statements, program review and evaluation, the role of the Higher Education Coordinating Board and related issues are now being addressed by a governor's commission on the future of higher education. Also unaddressed were state controls on purchasing and personnel. Except for the University of Minnesota, higher education institutions currently are required to use state purchasing services and the state civil service system for support personnel.

Resources

The Honorable Lyndon Carlson, Chairman
House Appropriations Subcommittee on Education
240 State Office Building
St. Paul, Minnesota 55155
612-296-4255

The Honorable Gene Waldorf, Chairman
Senate Finance Education Subcommittee
24H State Capitol
St. Paul, Minnesota 55155
612-296-3809

David Longanecker
Executive Director
Higher Education Coordinating Board
400 Capitol Square Building
550 Cedar Street
St. Paul, Minnesota 55101
612-296-9665

Gordon Donhowe
Commissioner of Finance
309 Administration Building
50 Sherburne Avenue
St. Paul, Minnesota 55155
612-296-2438

David Berg, Director
Management Planning and Information Services
University of Minnesota
429 Morrill Hall
100 Church Street, S.E.
Minneapolis, Minnesota 55455
612-376-7258

Nick LaFontaine
Associate Vice Chancellor for Finance
State University System
230 Park Office Building
555 Park Street
St. Paul, Minnesota 55103
612-296-2844

Donald Wujcik
Vice Chancellor for Fiscal Services
State Community College Board
301 Capitol Square Building
550 Cedar Street
St. Paul, Minnesota 55101
612-296-3356

Mel Johnson
Fiscal Manager
Board for Vocational/Technical Education
Capitol Square Building
550 Cedar Street
St. Paul, Minnesota 55101
612-296-2421

"Final Report of the Task Force on the Future Funding of Post-Secondary Education," December 1982, 38 pages. Available from the Minnesota Higher Education Coordinating Board, 400 Capitol Square Building, 550 Cedar St., St. Paul, Minnesota 55101.

"Review of 1983 Legislative Session," MHECB Report, July 1983 (Volume VI, Number 12), 16 pages. Available from the Minnesota Higher Education Coordinating Board (same address as above).

Information in this entry drawn from:

Van de Water, Gordon. "Basic State Strategies: Planning and Control or More Reliance on Market Forces," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

2. CHANGES IN SPECIFIC POLICIES

Institutional Control of Tuition: Connecticut

Academic Scholars Program and Academic Scholars Fund: Florida

Permanent Funding for Faculty Positions: Florida

Reviewing Programs and Funding Improvements: Florida

From Line-Item Appropriations to a Lump Sum: Idaho

From Central Accounting and Procurement to Campus Control: Kentucky

Program Review Affects Allocations: Louisiana

Budget Regulation Eased: Massachusetts

Program Review to be a Budget Component: Missouri

Better Prepared Freshmen: Ohio

Data on Programs and Finances Converge: Oklahoma

Improving Student Performance: Tennessee

Relating Funding to Enrollment: Tennessee

Special Funds for Excellence: Virginia

Most changes in state fiscal policy are incremental, made to solve a particular problem rather than to alter the basic allocation process.

Some of the changes described below give institutions more flexibility in managing funds. The changes in Idaho, Kentucky, Massachusetts and Connecticut are in this category. Institutions in Idaho and Kentucky already had a great deal of freedom from state fiscal and management controls, but change gave them even more freedom. Institutions in Massachusetts and Connecticut had much less flexibility to begin with, but they increased what they had.

Other entries describe how special funds for quality improvement are allocated on a competitive basis. Florida and Virginia, for example, use this approach to encouraging quality. Their programs encourage institutions to raise matching money or reallocate resources to obtain additional state resources. The base budget is not affected, but successful programs may later be built into the base.

Some states are relating decisions about funding to information about quality obtained from program reviews. Louisiana, for example, has promised institutions that program review will not adversely affect budgets and that institutions can keep money saved by eliminating or reducing programs. Other states use program review to identify where additional funds are needed, as well as where reductions are possible. More states are seeking better information about the quality of programs and ways to incorporate this information into allocation decisions.

Also described are Ohio's efforts to raise academic standards for entering students, a type of change that many states have made. What Ohio is doing affects quality directly but fiscal policy only indirectly, to the extent raised standards affect the need for, and costs of, remedial education.

Tennessee's deemphasis on enrollment as a factor in resource allocation, described below, has allowed some institutions to raise standards and decrease enrollment without losing resources. Most other states are also trying to deemphasize enrollment as a criterion for fund allocation.

Another entry describes Tennessee's efforts to develop a broad-based academic evaluation process that is tied directly to allocations. The idea of providing incentives to institutions to improve students' performance and the idea of measuring the "value added" by undergraduate education has been discussed extensively over the past 25 years. But Tennessee has been the first state to base a budget factor on these ideas.

The cases presented here are illustrative rather than complete, but they do provide useful examples of most of the ways that states have tried to link fiscal policy to greater management flexibility and improved quality.

INSTITUTIONAL CONTROL OF TUITION: CONNECTICUT

*Flexibility
*Decentralized authority: Institutions
*Tuition set by institutions
*Retention of funds: Tuition

The Problem

In Connecticut, most state appropriations to higher education lapse at the end of the fiscal year and unexpended funds revert to the state. Most tuition, fees and related interest are deposited in the state treasury and included in the general fund appropriations. The executive branch controls the number of full-time-equivalent staff funded each year, and the legislature is extensively involved in decisions on appropriations and budgets. Funds are appropriated by line item according to major functions, and savings in one area can not be used to offset costs in another area.

State budgets have been tight since 1980, and budget rescissions have occurred yearly. A statute on rescission allows the governor to take away 1% to 5% of any agency's state appropriations.

The Impetus for Change

Funding reductions and extensive budgetary controls led the University of Connecticut to push for more flexibility in financial management. The major argument was that since the state could not give institutions additional funds, it should provide them with additional flexibility. The university pressed specifically for changes in policies for setting tuition and fees and managing these revenues.

The Change

In 1981, an experimental tuition fund was established at the University of Connecticut. The university was given authority to set its own tuition rates and to retain tuition revenues. When the fund was first proposed, other higher education institutions (technical two-year colleges, comprehensive community colleges, and the state university) resisted the idea because of concern that tuition revenues would be used as a partial substitute for state appropriations. While the legislature considered including all public higher education institutions in the fund, the House Appropriations Committee thought only the University of Connecticut had accounting procedures sophisticated enough to insure proper management.

Under the new arrangement, state appropriations are to be used for basic costs (e.g., salaries and fringe benefits, energy costs and library expenses). The University of Connecticut is to use tuition income to pay for other costs

(e.g., equipment purchases, travel). The University can spend tuition revenues for whatever educational purposes it considers appropriate. The only stipulation is that, should actual tuition revenue exceed budgeted tuition revenue for any particular year by more than 2%, excess revenue be spent for student financial aid.

The Results

Since the tuition fund was established in 1981, the university has gained revenue from tuition increases and the interest paid on tuition deposits. Tuition revenues have not been rescinded, and the university has managed its own tuition revenue.

The student financial aid program has benefited substantially from the tuition fund. When the university board of trustees approved tuition increases in 1982, 60% of tuition increases during this year were used for student financial aid, increasing aid from $750,000 to $3.25 million. The university used part of the tuition increases to fund work-study jobs for students.

The monetary benefits that accrue to the university from the tuition fund are not viewed similarly by all parties. Interest income from tuition revenue, for example, could be viewed as a gain in a zero-sum game: interest income granted to the university is interest income denied to the state. Primary opposition comes from state auditors, who feel that the University of Connecticut's new freedom to spend tuition revenues makes linking state appropriations to educational services more difficult. Major disagreement revolves around the degree to which the state should monitor managerial decisions on routine university operations. However, opposition from other colleges and universities has changed to support. In 1984 the state legislature was considering a bill to grant tuition fund authority to other institutions. Chances of passage appeared to be good.

Resources

George Steinmetz
Staff Associate for Budget and Leases
Department of Higher Education
Board of Governors
61 Woodland Street
Hartford, Connecticut 06105
203-566-4058 or 203-566-3911

William Bowes
Budget Director
Department of Higher Education
Board of Governors
61 Woodland Street
Hartford, Connecticut 06105
203-566-5766

Hyde, William. "Providing Public Colleges and Universities More Fiscal Autonomy: The Experience in Connecticut." Denver, Colo.: Education Commission of the States, June 1983.

Information in this entry drawn from:

Hyatt, James A. and Aurora Santiago. "Incentives and Disincentives for Effective Management," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

ACADEMIC SCHOLARS PROGRAM AND ACADEMIC SCHOLARS FUND: FLORIDA

*Quality
*Entering students: incentives
*Merit scholarships

The Problem

Academically talented Florida high school students were leaving the state to go to college.

The Impetus for Change

Concern in the 1970s that talented high school students were leaving Florida to go to college resulted in the establishment of incentives for students to remain in the state and to prepare themselves better for college. In 1980 the Florida legislature enacted the Florida Academic Scholars Fund Program, which awards financial aid solely on the basis of student achievement or aptitude. In 1983, legislation created the Florida Academic Scholars Certificate Program, effective July 1984. These programs are designed to encourage high school students to perform well academically and to help institutions of higher education enroll outstanding students.

The Change

The Florida Department of Education administers both programs. To qualify as a Florida Academic Scholar, a student must meet three criteria:

1. Achieve a combined mathematics/verbal score of 1,100 on the SAT or 26 on the ACT and a high school grade-point average of 3.0 with no grade below C

2. Complete, in grades 9-12, four years of English (stressing composition and literature), three years of advanced science (biology, chemistry and physics), four years of advanced mathematics (algebra, geometry, calculus, trigonometry), three years of social sciences (American history, world history, comparative economic analysis), two years of foreign language, one year of art and music, and one year of physical education

3. Complete two credits beyond the 22 Florida currently requires for high school graduation

A Florida Academic Scholar qualifies for financial aid from the Florida Academic Scholar Fund (see below) and is eligible for admission to any Florida public university. Minimal program costs are primarily for administrative support.

The Florida Academic Scholars Fund makes awards on the basis of merit. To be eligible for an award, a student must meet three criteria:

1. Be a National Merit Scholar or a National Merit Scholar finalist

2. Achieve a combined mathematics/verbal score of 1,200 SAT or 28 on the ACT and have a grade-point average of 3.5 in all high school courses

3. Be a Florida Academic Scholar

Awards are made on a first-come, first-served basis to Florida residents attending Florida institutions of higher education. Amounts are based on tuition and fees at the institution attended. Where tuition and fees are $2,000 or less, the award is $500 per year; where they exceed $2,000, the award is $750. Need is not a factor in the award, and the award is not counted in assessing need for other state financial aid programs. For 1983-84, $1.8 million was awarded to 2,521 students.

The Results

The Florida programs have been strongly supported by the public, the school system, colleges and universities, the governor and the legislature. They are viewed as an integral part of Florida's effort to reach the upper 25% nationally in education attainment.

The University of Florida believes the programs are effective in helping it attract bright students, but measuring effectiveness is difficult. Perceived quality of the institution, program interests, recruitment efforts and location may be more important to students than Academic Scholar awards. The programs are likely to have no effect on students who plan to attend prestigious out-of-state institutions. Awards are small, especially compared to average costs for tuition and living expenses of $4,000 to $8,000 at state institutions.

Because freshman enrollments at the comprehensive university are limited, competition for admission is intense. This makes the assurance of admission for Academic Scholars an attractive feature for students. Institutional personnel also believe that recognition of academic achievement significantly alters the behavior and goals of high school students.

Resources Information on this entry drawn from:

Albright, Brenda. "Higher Standards and Incentives for Students," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

PERMANENT FUNDING FOR FACULTY POSITIONS: FLORIDA

*Quality
*Endowed chairs
*Public/private partnership

The Impetus for Change

Florida sought to attract and retain outstanding faculty members by providing permanent funding for faculty positions. Secondary objectives were to stimulate fund raising and encourage private donations.

The Change

In 1979 the Florida legislature appropriated $10 million to endow chairs for eminent scholars at state institutions. Institutions wishing to establish a chair had to raise $600,000 in money restricted to endowment in addition to the average private gifts donated in each of the three years preceding establishment of the program. The Endowment Fund matched this $600,000 with $400,000. Income from the combined funds of $1 million is sufficient to pay the salaries of a scholar, an assistant and a secretary as well as some operating expenses.

The Results

By the end of 1982, universities had established 23 chairs. Florida Atlantic had established the most chairs, and the University of Florida was second. The program attracted private support and additional state support. The state provided an additional $5 million in 1980; interest earned from investing the Endowment is added to the state matching total.

Resources

Roy McTarnaghan
Vice Chancellor, Academic Affairs
Florida Board of Regents
107 West Gaines Street
Tallahassee, Florida 32301

Information in this entry drawn from:

Eyler, Janet. "Fiscal Incentives to Improve Quality," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

REVIEWING PROGRAMS AND FUNDING IMPROVEMENTS: FLORIDA

*Quality
*Program review
*Special funds for special purposes

The Problem

Florida's activity in program assessment can best be interpreted by looking at actions of the Board of Regents in academic affairs since the early 1970s. (The Board, created by statute, governs the nine-campus State University System.) In 1973-74 the campuses were asked to indicate their top five and bottom five academic programs. They were encouraged to terminate or phase out the weakest programs and shift resources to programs that had achieved distinction or had the best chance of achieving distinction. In 1974-75, some relatively modest supplemental funding was provided to enhance the better programs. This action, which predated statewide program review, was significant because it provided a context for recognizing good programs and allocating or reallocating resources.

The Impetus for Change

In the fall of 1975, the Regents formally adopted a policy calling for regular review of academic programs. The reviews were to be statewide in perspective, considering the needs of Florida and Floridians rather than of single campuses. Broad questions were to be addressed: Is the curriculum current? Are important areas of a discipline not represented among the state's offerings?

The Regents' staff integrated program review with other board activities, such as new program approval, enrollment planning, facilities planning and projections of fiscal need. The first fields chosen for review were those the Regents felt were most pressing — teacher education, engineering, oceanography, nursing and marine biology. They deferred action on requests for new programs in other fields until statewide reviews of those fields had been scheduled. This allowed the state to evaluate plans for new programs in the context of current programs. The panel formed for each statewide review visits each campus that has (or has requested) a program in a particular area. Regents' staff coordinate reviews, using out-of-state specialists selected jointly by Board staff and the institutions. The campus visits include interviews with key individuals and, in some cases, public hearings.

The Changes

After about three years of statewide review, the idea of focusing funding on distinctive programs gained strength. The 1978 planning guidelines developed by the Regents

included a plan for "programs of emphasis." Under that plan, universities could request supplemental funds for certain programs, contingent on campus commitment to reallocate internal funds. A post audit would evaluate how the institution used the supplemental funds and confirm the extent of internal support.

Concurrently, other efforts were under way to secure special funding to meet other academic needs. In 1977, a five-year, $50 million plan was proposed to increase library funding. The legislature approved $10 million for this project the following year and has since provided another $26 million. In 1978 the Regents requested funds for scientific and technical equipment; the next appropriations package included funds for this purpose.

By this time, the institutions, the Regents and the executive and legislative participants in higher education policy were growing more experienced in using the budget process to channel resources to specific programs and academic areas. These attempts have come to be described generically as "quality improvement funding." Each year since 1978, funds have been appropriated to address a specified issue.

Some observers would question whether these funds are truly supplemental or whether they are instead funds that would have come to higher education anyway, simply appropriated with more restrictions. State funding for the university system expressed as a share of general fund appropriations has been essentially constant.

Actions in the past two or three fiscal years show that targeted funding may be shifting away from helping the best programs become better — which usually has meant helping graduate and professional programs, since these are traditionally considered the kinds of programs that most readily achieve national distinction. In 1982, for example, the appropriations act directed that certain funds be used to reduce undergraduate class sizes. This may promote better quality in undergraduate teaching, but it also indicates a shift in priority and a changing legislative view. The competitive priorities for funding can be confirmed by the fact that library supplemental funds have been trimmed, and last year the base funding for library support dropped 50% from the previous year.

In summary, the Florida experience in using the results of program review to guide budgeting decisions has been generally positive. The dozen disciplines that have been reviewed statewide have subsequently been at the center of allocations considerations. For example, after the 1980

review of engineering programs, engineering received $11 million in earmarked funding, and support has been sustained to some extent since that time. The recommendations that evolved from the review included increasing the number of engineers in the state, raising the salaries of engineering faculty, and improving teaching and laboratory facilities. Program reviews have usually provided higher visibility to the field under scrutiny and allowed a forum for developing consensus about program priorities. In general, Florida offers a dynamic model of translating program reviews into budgetary decisions.

Resources

Roy McTarnaghan
Vice Chancellor for Academic Programs
State University System of Florida
107 West Gaines Street
Tallahassee, Florida 32304
904-488-7702

Information in this entry drawn from:

Smartt, Steven. "Academic Program Review: Fiscal Implications and Incentives for Quality Improvement," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

FROM LINE-ITEM APPROPRIATIONS TO A LUMP SUM: IDAHO

*Flexibility
*Decentralized authority: Governing boards
*Lump-sum appropriations
*Special funds for special purposes
*Cost and equity analysis

The Problem

Within a relatively short period of time, major economic changes caused a severe reduction in on Idaho's revenues. Budget difficulties began in November 1978 when voters approved an initiative to limit property taxes to 1% of the market value of assessed property, and to limit adjustments for inflation to 5% in any one year. The effect was to reduce significantly local support for public schools (as well as for city and county governments). Obligated by legislative mandate to maintain its support for public schools, the legislature offset the loss of property tax monies by shifting state revenues. The obvious result was that state support for higher education (as well as for some other state services) dropped dramatically. A major prison uprising and the eruption of Mount St. Helens entailed major cost outlays. These difficulties were compounded by a recession in the timber industry in the late 1970s.

During this period, appropriations fell short of inflationary growth. State revenues failed to reach even the conservative projections of the legislature, forcing the governor to hold back appropriated funds in order to maintain the balanced budget required by the state constitution. Since the governor did not hold back appropriations for public schools, other state-supported services, of which higher education was the largest, carried the burden of Idaho's financial problems.

The Impetus for Change

The decline in state support made it extremely difficult for the four public colleges and universities to support programs and services. To help institutions respond to severe financial conditions, the state legislature granted them greater flexibility in reallocating funds. A mechanism for implementation already existed in the form of a declaration of legislative intent.

The Changes

The major change was the switch from a line-item appropriation by number of full-time-equivalent (FTE) positions and by expenditure class (i.e., personnel services, operating expense and capital outlay) to a lump-sum, single appropriation to the Board of Regents for the four public institutions. The Board in turn allocated a lump sum to each institution.

Appropriations for special programs are not part of the lump sums. Programs like the Agricultural Research and Extension Service and the Washington-Alaska-Montana-Idaho (WAMI) regional medical education program continue to be funded by separate appropriations. Since moving funds between expenditure classes in these areas or between these areas and general education was not possible, personnel cuts in special programs were frequently the only way of complying with budget reductions. During FY 1980, for example, the personnel budget of the Agricultural Research Unit was cut by $290,000. Administrative staff support was reduced and farm-work staff positions were cut at several off-campus research and extension centers.

In the general education area, however, the university transferred funds among units so that the burden of reductions would not fall on any single unit. For example, support for positions was often shifted to other funding sources, thus preventing (although sometimes only temporarily) personnel reductions.

The Board of Regents also stopped using the previous year's percentages as a basis for distributing funds to institutions. In an attempt to define and achieve equity among institutions, the Board initiated cost and equity analyses using Information Exchange Procedures (IEP) previously developed by the National Center for Higher Education Management Systems (NCHEMS). The IEP is a set of standard definitions and procedures for gathering information (about disciplines and degree programs, outcomes of instructional programs and general institutional characteristics). According to a Board staff member, the use of cost analysis as a basis for distributing funds was based on the premise that students at different state institutions should have equalized instructional costs.

The Results

Although all four public institutions in Idaho tried to make use of their new flexibility, results are perhaps most readily apparent at the University of Idaho, the state's land-grant institution. Aided by clear institutional priorities, the University of Idaho tried to take maximum advantage of budgetary flexibility.

Its short-term responses to mid-year budget cutbacks included freezing vacant positions and using salary savings as a one-time funds source; offsetting general account losses with operating contingency reserves; and deferring capital equipment purchases, facilities maintenance and improvement programs.

The university also sought long-term solutions to financial problems. For example, it reviewed administrative procedures and business practices in "paperflow workshops" and strengthened its electronic management systems.

Reallocated resources were used to retrain faculty in low-enrollment programs for programs in which enrollment was increasing. Early in the planning for budget cutbacks, the university president mandated a $2 reduction in non-academic areas for each $1 reduced in academic areas.

The university extended flexibility to its colleges and departments. While permanent personnel positions were still controlled by the university administration, all allocations for support budgets (funds for hourly employee wages, travel, office and instructional expenses, equipment, etc.) were distributed in lump sums. Colleges and departments were required to submit annual budget plans, but they could move funds from one budget category to another.

Reactions have been mixed to new procedures based on cost and equity studies. Boise State, which had grown rapidly during the 1970s, has received progressive increments of $100,000 - $200,000 per year since FY 1981. But, according to a Boise administrator, such adjustments become a political problem when there is no infusion of new funds because one institution's gain is another's loss. The University of Idaho is concerned that equity analysis may not fully consider the higher costs it incurs as the state's land grant school and major research institution.

Resources

David McKinney
Financial Vice President
University of Idaho
Moscow, Idaho 83843
208-885-6174

Jerry Wallace
Budget Director
University of Idaho
Moscow, Idaho 83843
208-885-7044

Asa M. Ruyle
Financial Vice President
Boise State University
1910 University Drive
Boise, Idaho 83725
208-385-1200

Ron Turner
Budget Director
Boise State University
1910 University Drive
Boise, Idaho 83725
208-385-1273

Stephen W. Keto
Chief Fiscal Officer
State Board of Education
Len B. Jordan Building
650 West State Street
Boise, Idaho 83720
208-334-2270

Keith Hasselquist
Budget Director
Idaho State University
Pocatello, Idaho 83209
208-236-2404

Information in this entry drawn from:

Hyatt, James A. and Aurora Santiago. "Incentives and Disincentives for Effective Management," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

FROM CENTRAL ACCOUNTING AND PROCUREMENT TO CAMPUS CONTROL: KENTUCKY

*Flexibility
*Decentralized authority: institutions
*Local control of accounting
*Post-audit
*Public/private partnership

The Problem

A reorganization of state government in Kentucky in 1936 greatly reduced the number of governmental units and provided for a strong finance department in a "strong governor" state. It established centralized accounting and procurement functions. The 1936 reorganization was not originally intended to encompass state colleges and universities, but state appropriations to higher education were kept in the state treasury and spent through a centralized accounting system. Centralized state procedures duplicated institutional activities and were often inefficient. By the mid-1970s, for example, the state department of finance controlled all procurement for higher education, including capital projects. Almost all university funds, including student fees, were accounted for centrally, and most paychecks and vendor payments were written centrally. This centralized processing caused long delays, and goods and services purchased did not always yield the best value for the money. Inefficiencies arose also on campuses where administrative units had the primary responsibility of "pushing paper" through the state bureaucracy.

The Impetus for Change

Toward the end of 1980, Kentucky experienced shortfalls in state general fund receipts. The constitutional requirement for a balanced budget led to cutbacks of $44 million for higher education, which reduced the planned funding for the 1980-82 biennium from $394 million to about $350 million.

The election of Governor John Y. Brown furthered the likelihood of changes in state budgetary practices. Brown, a businessman, commissioned an external assessment of management practices and funding at colleges and universities. The consultants, Price Waterhouse & Co. and MGT of America, Inc., reported that state regulations and procedures posed the biggest obstacles to sound management. They noted that purchasing rules and regulations, for example, split purchasing activities between the state purchasing office and the institutions. Duplication also occurred in the payroll process, accounting and auditing. The report triggered bill HB 622, which sought to separate state colleges and universities from the state administrative apparatus. With the unanimous support of the

institutions, this "Universities Management Bill" passed in March 1982.

The Changes

The Universities Management Bill was a landmark statute. It reversed 40 years of state centralization and gave institutions considerable flexibility in business management.

Purchasing. All purchasing is now done at campuses, in accordance with the state's Model Procurement Code. Institutions are no longer required to purchase items from state central stores and are using their own stores more effectively. Some institutions may form consortia for cooperative purchasing.

Capital construction. State universities may now select architects and other consultants, advertise construction projects and award contracts, using the Model Procurement Code. These new procedures have substantially reduced the time between project authorization and project completion, thereby saving money. Issues of quality and associated costs have become primary concerns of the institutions.

Accounting and auditing. Although certain state appropriations must be maintained centrally for investment purposes, funds are transferred daily to each institution to cover the previous day's checks. All accrual-based accounting is now done on campus. All payroll checks are now written by university treasurers, rather than by the state treasurer. HB 622 also requires colleges and universities to employ a qualified accounting firm to conduct an annual audit that addresses both finances and the institution's compliance with HB 622. Accountability for state funds has shifted from a pre-audit to a to post-audit.

Affiliated corporations and foundations. HB 622 authorizes colleges and universities to establish affiliated corporations and foundations that are corporate entities rather than public agencies.

The Results

Institutions can exercise all or only some of the options offered by HB 622. The University of Kentucky and the University of Louisville exercised all the options, because they had the staff needed to perform the newly delegated functions. Other institutions, mainly regional ones, chose only some of the options, declining mainly to undertake their own capital construction. Kentucky State University did not exercise any of the options.

Financial management of higher education has decentralized. Accountability for institutional operations has shifted from the state department of finance to governing boards. With flexibility to manage their own affairs, institutions have increased efficiency in several ways. The option of determining the best value in terms of services rendered or goods purchased has enabled them to reduce costs for themselves and for the state. Eliminating duplicated procedures has decreased paperwork. The change from pre-audit to post-audit had allowed the state department of finance to focus on policy rather than on paperwork.

The changes specified by HB 622 have produced immediate cost savings. Freedom to purchase items elsewhere than in the state central stores has enabled the University of Kentucky to save $90,000 on estimated yearly purchases of $1 million, for example. The university has also awarded contracts for such items as computers and chemicals at a savings of $100,000 per year. The greatest savings from HB 622 have been in capital construction. From July 1982 to March 1983, the University of Kentucky awarded $7 million in contracts with cost savings of about $445,000, due primarily to shortened completion periods.

Resources

Jack C. Blanton
Vice Chancellor for Administration
University of Kentucky
Lexington, Kentucky 40506
606-257-1841

Edward A. Carter
Associate Vice President of Planning and Budget
206 Administration Building
University of Kentucky
Lexington, Kentucky 40506
606-257-3968

James O. King
Vice President for Administration
University of Kentucky
Lexington, Kentucky 40506
606-257-1841

A. D. Albright
President Emeritus
Northern Kentucky University
University Drive
Highland Heights, Kentucky 41075
606-572-5100

George Ruschell
Assistant Vice President for Business Affairs
University of Kentucky
Lexington, Kentucky 40506
606-257-1841

Information in this entry drawn from:

Hyatt, James A. and Aurora Santiago. "Incentives and Disincentives for Effective Management," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

PROGRAM REVIEW AFFECTS ALLOCATIONS: LOUISIANA

*Quality
*Program review
*Allocations adjusted by program review
*Decentralized authority: Institutions

The Changes

In the mid-1970s, the Louisiana Board of Regents embarked on a process of program review, beginning with all doctoral programs, discipline by discipline. The Regents' staff chose disciplines to be reviewed, established criteria, selected the consultants, and distributed reports. All masters programs were examined second. In 1984, allied health programs were being reviewed, and the Board expects next to examine the general education component of baccalaureate programs.

The purpose of program review is, as in many other states, to improve quality and to increase financial efficiency. An initial step in the review process is institutional self-study. This phase concentrates primarily on qualitative and quantitative dimensions of students, faculty, library and other resources.

The Board permits an institution to retain funds after a program is terminated. In effect, the campus is given an incentive to trim its own sails and to reallocate funds. This arrangement represents a significant change in Louisiana's funding formula.

The Results

Louisiana received considerable attention in the latter part of the 1970s when, on the basis of program reviews, several doctoral programs were terminated, many of them programs in education. Other programs have been given additional funding. In a few instances, the Regents have directed that an institution reallocate funds to certain programs.

Now being discussed are ways to relate program review data to long-range planning. Other possible changes in current policy include incentives for institutions to provide honors-level instruction and allowing campuses to carry forward unused funds from one fiscal year to another. A mission-oriented budgeting plan is also under review.

Resources

Kerry Davidson
Associate Commissioner for Academic Affairs
Louisiana Board of Regents
161 Riverside Mall
Baton Rouge, Louisiana 70801
504-342-4253

Information in this entry drawn from:

Smartt, Steven. "Academic Program Review: Fiscal Implications and Incentives for Quality Improvement," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

BUDGET REGULATION EASED: MARYLAND

*Flexibility
*Decentralized authority:
*Transfer of funds
*Transfer of positions
*Retention of funds:
Overhead, interest, gifts
*Computer purchase by institutions

The Problem

Maryland is a "strong governor" state, and the Department of Budget and Fiscal Planning (DBFP) exercises considerable control over higher education. The constitution empowers the governor to decide the format and details of budgets. Four-year public institutions were required to support detailed budget requests with extensive documentation. Requests for funds above a "Maximum Agency Request Ceiling" (MARC) imposed by the governor had to be presented separately and stood slight chance of being approved.

The DBFP, the State Board of Higher Education (SBHE) and the legislature all reviewed budget requests, and the two state agencies use different approaches. For example, the DBFP moderates annual inflation allowances by availability of revenues, whereas the SBHE includes actual inflation. The DBFP reviews line items; the SBHE uses formula guidelines. The data required by the two agencies differ and, according to one official, are difficult to compare. Income from all sources including dedicated funds was included in the budget. This meant that federal funds and private gifts, for example, were used to offset general funds. Transfers of funds between programs or transfers of positions had to be approved by DBFP. All unexpended and unencumbered funds reverted to the state at the end of the fiscal year. The state treasurer managed investments, and interest income from investments accrued to the general treasury. State procurement laws limited the procurement of services, commodities, supplies, construction and computer.

The University of Maryland had been granted more flexibility than other state institutions by the "University of Maryland Autonomy Act" passed in 1952. But its statutory independence eroded through the years until its autonomy in most budget matters was limited.

The Impetus for Change

In 1981 and 1982, governing boards began to seek broader management authority. They argued that extensive state controls provided little incentive for effective management, hampered flexibility, and deflected attention from important policy and program issues. They maintained that

the complexity of higher education required management and budgetary flexibility. They pointed out that extensive state controls ignored the authority of governing boards and the existence of internal controls. Too many controls made accountability for final decisions hard to determine.

No agreement was reached on how to restructure the financing process, but there was consensus on the need for greater flexibility. According to some state officials, new budget analysts at the DBFP were receptive to compromise. According to others, the secretary of budget and the governor provided new direction.

In spring 1983 the governor appointed a 15-member task force to study flexibility for higher education. The panel will continue to meet until January 1985.

The Changes

The task force recommended legislation that took effect on July 1, 1984.

SB 960, which gives institutions budgetary flexibility:

- Allows the transfer of funds among objects of expenditure and programs of up to 5% without prior approval
- Allows institutions to transfer positions among programs without prior approval, as long as the number of positions does not exceed the number authorized
- Allows the carryover of unexpended special and federal funds from one fiscal year to the next
- Credits to each institution's account in the state treasury interest income derived from tuition, fees and room and board (effective FY 1986)
- Provides that private gifts be used in accordance with the donors' wishes and not substituted for state general funds

The task force also proposed changing the treatment of overhead charged to federal grant projects. The University of Maryland had used most of the overhead from research grants to offset general funds. The proposal is to phase in a change that allows institutions to keep one half of the overhead on federal grants for general research and use the other half to offset the state appropriation.

SB 957 addresses computer purchases. Essentially, it exempts computers used solely for academic and research purposes from state purchasing requirements so cumber-

some that the original purpose of a computer purchase had often ceased to be valid by the time purchase was approved. Allowing institutions to purchase computers of this sort without prior approval was envisioned as an incentive for the faculty to seek research grants.

The task force further recommended that:

> A committee cochaired by the Department of Budget and Fiscal Planning and the State Board for Higher Education, and including finance officers for each governing board and legislative fiscal analysts, be charged to determine a minimal number of budget programs for possible use in the Fiscal Year 1986 budget process.

A Finance Advisory Committee began meeting in January 1984. It has submitted recommendations to the task force that stress the importance of consistency in budget format and the need to reduce support detail. Recommendations on reducing the number of budget programs, and defining expenditures and supporting details were followed in the FY 1986 budget submission. The committee also recommended conformance with "generally accepted accounting principles" developed by the American Institute of Certified Public Accountants and the National Association of College and University Business Officers. Under consideration is a separate appropriation to each campus that would designate "X" dollars as restricted funds and "Y" dollars as unrestricted funds and allow institutions to move funds within unrestricted categories.

The Results

It is still too early to assess the results of these changes. However, the fact that decisions were based on suggestions from all major parties — governing boards, executive staff, legislative staff and the State Board of Higher Education — is considered conducive to success.

According to one state official, the importance of the changes varies by type of institution. Most important to the University of Maryland, the state's major research university, is the authority to use donated funds according to donors' wishes and to revert only 50% of overhead on federal grants. Flexibility in computer purchases is also very important. Most significant to state colleges and universities, however, is authority to carry over unexpended special and federal funds, the interest on special funds and flexibility in computer purchases.

Resources

Lucie Lapovsky
Director of Finance and Facilities
Maryland State Board for Higher Education
Jeffrey Building, 16 Francis Street
Annapolis, Maryland 21401
301-269-2971

Donald Myers
Vice President for General Administration
Central Administration
University of Maryland
3300 Metzerott Road
Adelphi, Maryland 20783
301-853-3625

Frank Schmidtlein
(formerly Assistant to the Chancellor)
Professor, Department of Education
Policy and Administration
College of Education
Benjamin Building
University of Maryland
College Park, Maryland 20742
301-454-5766

Jean Spencer
Executive Director
Board of Trustees for State Universities and Colleges
16 Francis Street
Annapolis, Maryland 21401
301-2699-3971

Sheila Tolliver
Executive Assistant for Education
Office of the Governor
State House
Annapolis, Maryland 21404
301-269-2377

"Budget Flexibility Legislation Passes," in State Board for Higher Education Record, vol. 9, no. 2. Annapolis, Md.: State Board of Higher Education, Spring 1984.

Meisinger, Richard Jr. and James R. Mingle, "The Extent of State Controls in Maryland Public Higher Education," in Management Flexibility and State Regulation in Higher Education, ed. by James R. Mingle. Atlanta, Ga.: Southern Regional Education Board, 1983.

Information in this entry drawn from:

Hyatt, James and Aurora A. Santiago. "Incentives to Management Flexibility Through Deregulation," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

A UNITARY BOARD SUBMITS A UNITARY BUDGET: MASSACHUSETTS

*Flexibility
*Decentralized authority: Governing board
*Unitary board
*Unitary budget
*Formal budget model
*Base budget redefined
*Enrollment factor
*Parity adjustments
*Priority-setting process

The Problem

The budget process in Massachusetts has traditionally been very political. Before FY 1983, each campus sent its own budget to the state legislature, where detailed bargaining over line items was frequent. The political nature of the budget process in turn led to perceived inequities in funding. Several institutions argued that their funding was not adequate.

The Impetus for Change

The problems of political budget decisions and perceived inequities were some of the factors leading to the reorganization of higher education in FY 1981. A unitary state board of regents was created and assigned a wide range of responsibilities. This new board changed both the budget process and the budget.

The Changes

The Board of Regents now submits a unitary budget request for higher education. The unitary budget, established by legislation and fully effective in FY 1983, is based on campus budgets incrementally adjusted by the board. (Campuses decide how funds will be spent within categories.) The board has also changed the basis for determining campus budgets. In place of budgets adjusted mainly for inflation and new programs, the board instituted a formal budget model in FY 1983 that specifies criteria for developing budget requests. The board has tried to end windfalls, account for enrollment in funding adjustments, make parity adjustments in some budget categories and set budget priorities.

Ending windfalls to institutions. The legislature and the budget subcommittee of the university presidents' council modified the board's model in FY 1984 by removing one-time capital costs incurred during the previous year from the campus budget base. Although these one-time costs had for years been rolled forward into the budget base, adjustments were based on one-time costs incurred in FY 1983 only.

The enrollment factor in funding adjustments. The FY 1984 budget adjusts funding on a marginal cost basis that depends on variances from FY 1983 enrollment levels specified in the board of regents' budget recommendation. Funds added or subtracted depend on actual enrollments for the year. If the variances do not exceed 1%, no adjustments are made.

Parity adjustments. The FY 1984 formula budget model instituted parity adjustments for (1) equipment and (2) repairs, replacements and alterations. Minimum expenditures are set for these two accounts, which institutions cannot reduce without the board's approval. The parity adjustments are intended to reduce funding variances by creating ways to compare what institutions spend on maintenance. They also address the problem of deferred maintenance. Before the unitary board began submitting a unitary budget, campus presidents often shifted funds from accounts for equipment or repairs to accounts for salaries or other accounts they considered more critical. Short-term decisions like this often led to long-term problems as equipment and facilities deteriorated.

The establishment of budget priorities. When the unitary budget was first instituted, the board of regents tried to identify some statewide priorities, at first limiting itself to priorities for instructional programs. In FY 1984, the board extended its priorities to include instructional support, plant, information systems and personnel. The Regents and presidents' council now jointly determine priorities in these five areas. Campuses have authority to identify sub-areas of concern. Budget requests in these areas must be made through a formula proposal rather than a formula computation. Campuses are not limited in the number of requests they make in any category or in the number of categories.

The Results

The unified budget does not seem to have decreased the impact of political considerations in the budget process. Budget information on each campus is still made available to the legislature. Although the state appropriation is made in a lump sum, the legislature still recommends individual campus allocations. In general, campuses continue to lobby for their concerns.

On the other hand, the unified budget has eliminated detailed bargaining over line items, and campuses basically decide on the expenditure of funds by categories, subject to board and legislative approval. This has increased flexibility for institutions. But collective bargaining agreements and associated costs have somewhat constrained this flexibility. Also, the governor has position control. In mid-

1983, there were about 700 vacancies systemwide, which the Board of Regents could theoretically reallocate. But political realities prevented reallocation.

A positive effect of the unified budget is reasonably comprehensive data on needed programs, services and resources.

The parity adjustments and the removal of one-time capital costs from base budgets have restored some measure of funding equity. However, funding that meets equity standards may still be inadequate. The parity adjustments have also alleviated problems caused by unduly deferred maintenance. The recent establishment of categories for new expenditures has provided impetus for a review of programs and services. Finally, use of the formula model builds post-audit accountability into the budget process and makes comparisons possible.

Resources

Trish Kruza
Senior Budget Analyst
Board of Regents of Higher Education
One Ashburton Place
Boston, Massachusetts 02108
617-727-0693

Claire Van Ummersen
Associate Vice Chancellor for Academic Affairs
Board of Regents of Higher Education
One Ashburton Place
Boston, Massachusetts 02108
617-727-0616

Marie Reid
Associate Vice Chancellor for Administration
and Finance and Budget Director
University of Massachusetts, Amherst
Amherst, Massachusetts 01003
413-545-3421

Massachusetts Board of Regents of Higher Education, Fiscal Year
1984 Budget Instructions.

Information in this entry drawn from:

Hyatt, James A. and Aurora A. Santiago. "Incentives and Disincentives for Effective Management," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

PROGRAM REVIEW TO BE A BUDGET COMPONENT: MISSOURI

*Quality
*Program review
*Incentives to institutions: Reallocate

The Problem

The Missouri coordinating board is interested in moving from an enrollment model for budgeting to a "planned aggregated instructional base" approach. Program review is to be a component of the new model. The board has implemented a review process, but it has not yet completed the first rounds of reviews. Institutions have been advised that program review will be more prominent in the preparation of the 1986 budget. The intention of the coordinating board is to provide an incentive for institutions to reallocate funds on the basis of program review findings. The overall purpose is to improve quality by concentrating funding in deserving programs.

Resources

Steve Dougherty
Deputy Commissioner for Planning
Missouri Coordinating Board for Higher Education
101 Adams Street
Jefferson City, Missouri 65101
314-751-2361

Information in this entry drawn from:

Smartt, Steve. "Academic Program Review: Fiscal Implications and Incentives for Quality Improvement," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

BETTER PREPARED FRESHMEN: OHIO

*Quality
*Entering students: Better preparation
*Statewide placement tests
*Remedial courses in high schools

The Problem Ohio's public higher education system offered large numbers of remedial courses for students without enough college preparatory courses and lacking basic skills.

The Impetus for Change Public pressure for change increased in 1978 with the enactment of legislation requiring the Ohio Board of Regents to report the percentage of high school students requiring remedial mathematics and English at state colleges and universities. Legislators felt that higher education was spending too much money (an estimated $12 million annually) on remedial coursework.

The momentum for change accelerated in 1980 when the Ohio Board of Regents and the State Board of Education appointed the Commission on Articulation Between Secondary Education and Ohio Colleges and charged it with developing a college preparatory curriculum that clearly defined expectations for entering students and that, when followed, would reduce the need for remedial courses. In April 1981 the Commission recommended that the college preparatory curriculum include: four units of English; three units of mathematics, one taken in the senior year; three units of social studies; three units of science; and three units of foreign language. It further recommended that public and private colleges adopt conditional/unconditional admissions and admit unconditionally only students who had successfully completed the college preparatory curriculum.

The Commission suggested that the Ohio Board of Regents and the State Board of Education offer placement tests in mathematics and English to college-bound juniors. Other strategies included charging the State Board of Education for Elementary and Secondary Education to: include the requirements of a college preparatory course of study; stipulate that college-preparatory English require significant composition; and require that mathematics be taken in the senior year of high school. The Commission recommended that the board of education encourage all high schools to offer appropriate college-preparatory courses. It recommended that the Ohio Board of Regents encourage all colleges to adopt recommendations made by the mathematics and English task forces about the college-

preparatory curriculum. Task forces on science, social studies and foreign languages were established.

The Advisory Commission report was endorsed by the Ohio Board of Regents (May 1981), the Ohio State Board of Education (June 1981), the Ohio Association of Independent Colleges (June 1981), the Inter-University Council (June 1981) and the Two-Year College Presidents (June 1981).

In July 1981 private foundation funded a joint proposal by the Ohio Board of Regents, the state board of education and Ohio State University to develop a statewide mathematics test. An English Faculty Advisory Committee was formed in 1981 for the purpose of recommending a statewide composition testing system.

The Changes

Nine of the 12 public universities implemented (with some minor modifications) the conditional/unconditional admissions program. The implementation date was 1983 for two institutions, 1984 for one institution, 1985 for two institutions and 1986 for four institutions. Other universities have submitted proposals for review.

A mathematics placement test administered regionally by Ohio State is now available to all high school juniors. The English composition program is in the pilot stage; Youngstown and Ohio State are administering the program at selected schools.

The Results

The number of students requiring remedial instruction at Ohio State has declined significantly, and the placement test and unconditional admissions are considered contributing factors. There is evidence that high school students are taking more college-preparatory units. (The State Board of Education provides Awards of Distinction to students who complete a curriculum almost identical to the recommended college-preparatory curriculum, and the percentage of high school graduates receiving these awards has increased.) The Board is now analyzing the effect of the articulation effort on high school course offerings.

The Early Math Testing program has expanded. In 1983 the test was administered in 550 high schools to more than 90,000 students. Data on effectiveness available for selected high schools indicate that the program is successful. At one school the number of seniors taking mathematics increased by more than 70% in the fall following the first placement test, and the percentage of students requiring college-level remediation declined.

The cost of the Early Math Placement program is $157,000, or about $1.75 per student. The state bears these costs; no charges are levied on high school students. The state has also provided funds for development of the English testing system. Funds available due to declining enrollments and reallocation have covered the cost of adding teachers of mathematics and other subjects. (The board of education is now analyzing teacher and course data to measure the redistribution of teachers and enrollments.)

Change came through the cooperation of board members, administrators and teachers, rather than through mandate. Public visibility of the program was important. A testing program is an excellent tool for conveying a message about collegiate expectations, and the large number of students taking Ohio State's mathematics test indicates the message is being received. Visibility will increase in the fall of 1984 with a series of 96 statewide meetings with parents.

The Ohio programs shift some responsibility for basic skills from the high schools and colleges to the student and parent. Through the Early Math Placement Test program, thousands of students and parents and hundreds of teachers and counselors have received quantitative education assessment data previously unavailable.

Test data have shown that some students have not improved basic mathematics competencies. In response, Ohio State faculty and high school teachers have piloted a new course, "Basic College Preparatory Mathematics," that has proved effective. The task forces in English, mathematics, science, social science and foreign languages have defined skills needed in those subjects.

Resources

Elaine Hairston
Director, Special Programs
Ohio Board of Regents
3600 State Office Tower, 36th Floor
30 East Broad Street
Columbus, Ohio 43215
614-466-6000

Irene Bandy
Assistant Superintendent of Instruction
State Department of Education
Columbus, Ohio 43215
614-466-3708

Edward Jennings
President
Ohio State University
Columbus, Ohio 43210
614-422-6446

The Honorable Oliver Ocasek
Chairman, Senate Education Committee
7665 North Gannett Road
Northfield, Ohio 44067

Board of Governors for Higher Education, Department of Higher Education, State of Connecticut. "Admission Standards: National Trends in Public Higher Education." Hartford, Conn.: Board of Governors, May 1983.

Brizius, Martine and Harry Cooper. "A Joining of Hands: State Policies and Programs to Improve High School-College Linkages." The State Education Research Center of the National Association of State Boards of Education and the Council of Chief State School Officers for the Educational EQuality Project, The College Board, n.d.

Fisher, Karen. "Getting Into College: A Survey of Changing Admission Requirements in Western Public Higher Education." Boulder, Colo.: Western Interstate Commission for Higher Education, March 1982.

Ohio Board of Regents and the State Board of Education. "Report: Advisory Commission on Articulation Between Secondary Education and Ohio Colleges." Columbus, Ohio: Ohio Board of Regents, April 1981.

Information in this entry drawn from:

Albright, Brenda. "Higher Standards and Incentives for Students," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

DATA ON PROGRAMS AND FINANCES CONVERGE: OKLAHOMA

*Quality
*Program review
*Decentralized authority: Institutions

The Problem

The Oklahoma State Regents for Higher Education have monitored program characteristics since the mid-1970s. The convergence of program data and fiscal need occurs in the annual budget hearings for each institution. The Regents' staff generate descriptive data about academic programs; the institutions are primarily responsible for providing and defending qualitative information. The review process is used to justify budgets, to hold campuses accountable for funds spent, and to avoid unnecessary duplication of programs. Perhaps the most noteworthy aspect of the Oklahoma process is the fact that the institutions are responsible for much of the review data; they are allowed to control the nature of the evaluative information that is used for funding decisions. It seems likely that the role of program data in the Oklahoma budgeting procedure will become more critical.

Resources

Melvin Todd
Vice Chancellor for Academic Affairs
State Regents for Higher Education
500 Education Building
State Capitol Complex
Oklahoma City, Oklahoma 73105
405-521-2444

Information in this entry drawn from:

Smartt, Steven. "Academic Program Review: Fiscal Implications and Incentives for Quality Improvement," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

IMPROVING STUDENT PERFORMANCE: TENNESSEE

*Quality
*Incentives for institutions: Evaluate student performance
*Special funds for special purposes
*Decentralized authority: Institutions

The Impetus for Change

In 1974 the Tennessee Higher Education Commission (THEC) sought funding from the Kellogg Foundation, the Fund for the Improvement of Postsecondary Education and the Ford Foundation for a three-year pilot project designed to add a performance feature to the appropriations process. During the pilot phase, about half the state's institutions of higher education carried out projects to define and measure outcomes. Among the approaches used were student testing, alumni surveys, employment surveys and expert judgment.

The Changes

The Tennessee Higher Education Commission and a committee of institutional representatives then developed a state process for incentive funding. Because few procedures for evaluating outcomes were in place, the process was heavily weighted towards rewarding the development of systematic assessment activities. Five performance criteria were selected (each weighted equally) and standards for judging success on each criterion were established:

1. Number of academic programs accredited by specialized accrediting groups such as engineering, law, business and education
2. Performance of graduates on a measure of outcomes in general education
3. Performance of graduates on tests or licensing exams in major fields
4. Evaluation of programs and services by students, recent alumni and employees
5. Peer evaluation of institutional programs

Institutions could score up to 20 points in each category. The maximum award was a 2% addition to the institution's budget for the next fiscal year. (If an institution scored 50 points, for example, it would get a 1% addition for its budget.)

The criteria did not change for the first four years so that institutions had time to develop their assessments. The THEC then proposed changes designed to improve assessments and to shift the focus from creating evaluation systems to demonstrating improved outcomes. After considerable review by institutional representatives, new criteria were adopted in 1983.

1. Program accreditation has increased in weight from 20 to 25 points (out of a total of 100).

2. Program field evaluation. For developing an approved method of evaluation, institutions are awarded 10 points. They are encouraged to use an externally validated test, but they can also submit a plan for peer review or a locally developed test. Another 20 points are awarded for improvements in test scores, or scores above the average of peer institutions.

3. Institution-wide educational outcomes. Five points are awarded to institutions that administer the ACT-Comp measure of General Education Objectives to a representative sample of graduates. Up to 20 points are awarded if the institution can demonstrate that the "value added" (a) is above-average for comparable institutions or (b) has improved over the previous year. An alternate standard is used for institutions preparing technical or vocational graduates. These institutions can receive 5 points for measuring job placement of graduates and up to 20 more points for placing over 70% of graduates in jobs related to their training or for improving the job placement percentage.

4. Instructional evaluation by a referent group. Institutions can earn 5 points if they survey students, former students or employers and report actions taken as a result. They can earn an additional 5 points for improvement over the previous survey, or for surveying two or more groups.

5. An institution can get 5 points by having a plan for instructional improvement that meets certain standards and another 5 points for evaluating the effectiveness of this plan.

Under the new standards, more than half the points are awarded for demonstrating results, less than half for performing assessments. The emphasis in assessment is shifting toward estimation of value added, primarily by the use of tests. In FY 84 the maximum award rose from 2% to 5% of an institution's budget. Average scores jumped from 73

in 1982 to 91 in 1983; 8 of the 19 public colleges scored 95 or above. These high scores are partly the result of a decision to count first-year scores as an improvement (or above average). It seems unlikely that the scores for the second year will be as high. All the institutions have responded to the financial incentives and have begun to carry out assessments.

The Results

Although the Tennessee Higher Education Commission has had a serious commitment to performance funding for 10 years and a formal statewide program has been in operation for 5 years, it is still too soon to judge the impact on instructional improvement. Systems for systematically evaluating outcomes have been created, but only in the past year or so have serious attempts been made to measure outcomes.

The relative success of Tennessee's plan results in part from involving state officials, administrators, faculty, and outside experts in defining goals and developing programs. The willingness to recognize that measuring "value added" must wait until evaluation procedures are well established and the commitment to an iterative process of evaluation development were also crucial to the plan's widespread acceptance.

A recurring problem for any specially funded program in a time of austerity is the suspicion that "new" funds are actually funds that would otherwise have gone into the general budget. When Tennessee implemented the evaluation program, the general formula was underfunded and then reduced. This led to the sense that the incentive funds did not represent an "add on." Members of the THEC staff and some members of the legislature believe, however, that incentives were indeed "new" money appropriated only because the state established a performance funding program. Criticism has been muted as the program has become part of the budget. But any new efforts to create special incentives quickly elicit the same doubts about "new" resources.

Reaching consensus on program goals for diverse institutions is difficult. Tennessee has used pilot projects, provided alternate general categories (e.g., job placement versus general education outcomes), allowed institutions to specify many goals for particular programs, and made good assessment part of an iterative process. The biggest problem is, of course, the measurement of outcomes. Developing or finding valid measures of performance, matching measurement to the instructional program, coping with the expense and logistics of gathering

evaluation data, interpreting results, and separating the effects of programs and student ability are among the problems the THEC continues to address.

Problems of expense and logistics may prove most difficult to solve. Entrance and exit tests of all students, which would allow longitudinal tests of "value added," are prohibitively expensive; testing outcomes of all programs could consume all of the funding available for program improvement. In Tennessee, a representative sample of graduating seniors takes the ACT-Comp test, and "value added" is estimated by comparing the results to results projected from ACT scores of entering students.

Goal identification, measurement and sampling are especially difficult where particular programs are concerned. Some people feel that using accredited status of programs is inappropriate; others feel that accreditation emphasizes input more than outcomes. Subject matter examinations are also controversial. Standardized exams may not fit particular programs, local exams are difficult to validate and local selection of sample groups is suspect, especially when test results are compared to national norms. Objective levels of attainment may be more important than "value added" where students are preparing for occupational roles.

Resources

Robert Thoeny
Associate Director for Academic Affairs
Tennessee Higher Education Commission
501 Union Building, Suite 300
Nashville, Tennessee 37219
615-741-3605

E. Grady Bogue
Chancellor
Louisiana State University at Shreveport
8515 Youree Drive
Shreveport, Louisiana 71115
318-798-5200

Bogue, E. G. and G. Wayne Brown. "Performance Incentives for State Colleges," Harvard Business Review, vol. 60, no. 6, 1982.

Pickens, William. "Performance Funding in Higher Education: Panacea or Peril?" Survival in the Eighties: Quality, Mission and Financing Options, ed. by R.A. Wilson. Tucson: Center for Study of Higher Education, University of Arizona, 1983.

Information in this entry drawn from:

Eyler, Janet. "Fiscal Incentives to Improve Quality," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

RELATING FUNDING TO ENROLLMENT: TENNESSEE

*Quality
*Enrollment cushion
*Higher standards without financial penalty
*Peer comparison
*Evaluation of instruction

The Problem

Limited increases in state funding plus mid-year cutbacks reduced support for higher education. Yet most institutions increased enrollments, because funding policies encouraged growth. The formula model incentives conflicted with state support levels. ACT scores of entering freshmen were declining, and the state was attracting more marginal students who would need more remedial assistance.

The Impetus for Change

The Tennessee Higher Education Commission decided it should try to redirect institutional behavior from quantity to quality by modifying state funding policies.

The Changes

Several policies were changed in 1980-81. A 4% enrollment range (which later became a 10% range) was established within which appropriations were not adjusted. This gives institutions with moderate enrollment fluctuations more stable funding. A second enrollment policy allowed institutions to raise standards and limit or reduce enrollments without financial penalty. Institutions below regional levels of support could negotiate enrollment reductions and thereby use more resources per student -- a base-protection measure. A new policy implemented in 1981-82 stated that no funds would be provided for enrollment growth at any institution until state general funds or other funds could sustain support for high quality.

Two other major changes were adding an adjustment factor for peer-group comparisons with Southern Regional Educational Board (SREB) members and an instructional evaluation factor. The SREB factor established provided a crude estimate of funding "adequacy." Institutions that were farthest behind their regional peers had first priority on increased funding. The instructional evaluation factor based allocations of funds on demonstrated performance in instructional areas.

The Results

Subsequent to the changes, all universities raised admission standards, and ACT scores increased at most universities.

From 1980-81 to 1983-84, the average ACT scores of entering freshmen rose at seven of nine universities; the increase was significant at three institutions.

The University of Tennessee at Knoxville set more rigorous admission standards and reduced fall 1981 enrollments by 1,000 students; in 1982, it reduced enrollments by an additional 500 students. The university also planned to develop a long-range enrollment strategy that would derive campus capacity from estimates of capacity by each college. In 1981 the University of Tennessee College of Medicine reduced the size of the freshman class by 12%, from 204 to 180.

Increases in per-student funding for the University of Tennessee at Knoxville and the College of Medicine were significant, and student/faculty ratios were reduced by 20%. To the extent that per-student funding and student/faculty ratios correlate with quality, quality has been improved. The average ACT score of freshmen entering the University of Tennessee at Knoxville increased at a higher rate than at peer institutions. But the enrollment of Black students dropped faster than overall enrollments, and the university is concerned that it has acquired a public image as elitist.

Some Tennessee institutions have continued to grow. Seven of the 14 two-year institutions and two universities have grown more than 5% since 1981. These institutions object to changed enrollment policies, on the grounds that the new policies conflict with the goals of expanding access to higher education.

Resources

Brenda N. Albright
Associate Director for Fiscal Affairs
and Data Systems
Tennessee Higher Education Commission
501 Union Building, Suite 300
Nashville, Tennessee 37219
615-741-3605

Dr. Jack Reese
Chancellor
University of Tennessee, Knoxville
Knoxville, Tennessee 37996
615-974-3131

The Honorable John Bragg
State Representative
33 Legislative Plaza
Nashville, Tennessee 37219
615-741-3818

Leslie, Larry L. "State Level Formulas and Challenges of the 80s," Survival in the 1980s: Quality, Mission and Financing Options (University of Arizona, Center for the Study of Higher Education, May 1983), pp. 185-192.

Leslie, Larry L. and Garey Ramey. "State Appropriations and Enrollments: Does Enrollment Growth Still Pay?" Center for Study of Higher Education, University of Arizona, Tucson, Arizona, October 1984 (processed).

Information in this entry drawn from:

Albright, Brenda. "Higher Standards and Incentives for Students," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

SPECIAL FUNDS FOR EXCELLENCE: VIRGINIA

*Quality
*Special funds for special purposes
*Decentralized authority: Institutions
*Public/private partnerships

The Impetus for Change

The State Council of Higher Education for Virginia conceived the idea of a Virginia Fund for Excellence modeled after the Fund for the Improvement of Post-secondary Education. The legislature appropriated $1.7 million for the fund for the 1980-82 biennium. The 1982-84 and 1984-86 appropriations were $2.5 million each. The objective is to improve educational quality by awarding grants to institutions of higher education for projects directed towards goals the institutions themselves have set.

The Changes

Although there are no specific criteria for determining what projects will be funded, institutions are encouraged to develop proposals for improving programs rather than to seek funding for regular budget requests that were not approved. An effort is made to keep the program as open as possible. Projects are funded for one or two years. Under unusual circumstances, institutions may request funding for a second two-year period; so far, two or three projects have been funded more than once.

For the 1984-86 biennium, institutions submitted 88 proposals, about as many as in previous years. The Council funded 23 proposals for 1984-86 either fully or partially. Awards have ranged from $6,000 to $387,000.

Following are examples of recent awards.

- The fund is providing $150,946 to Central Valley Community College to institute a faculty/industry exchange and a cooperative education program for students. Local industry is providing $150,000 in matching funds. Objectives of the program are to keep occupational training relevant to industry needs and to encourage industry's support of the college.

- Virginia Commonwealth University will receive $119,553 to improve student writing skills. The money will be used to buy computer hardware and software to correct student writing samples and to train faculty who teach freshman composition.

- Virginia Tech will receive funds to assist all entering freshmen in the required purchase of personal

computers. Virginia Tech and the Fund will each cover 18% of the $2,500 purchase price.

Each proposal must include a plan for evaluation at the end of the funding period. Grant recipients submit evaluations to the Council, which uses them to justify requests to the legislature for the next biennium's funding.

The Results

During the early years of the Fund, there was concern that proposals from community colleges could not compete with those from the universities — in content or in presentation. The quality of proposals has since improved, and 9 of the 23 projects funded for 1984-86 are at community colleges. The central office of the community colleges has also received a small grant.

Evaluations of programs by institutions vary dramatically in effectiveness and thoroughness. The Fund as a whole is very popular with the institutions and the legislature, and no attempt has been made to assess its overall impact.

There is some feeling that the Council or the legislature should use the Fund to meet current state objectives in engineering and high technology. The Council staff, however, feel that there should be a place for proposals that are unrelated to science or equipment and that enhance the arts, the humanities or the social sciences.

Resources

Woodworth "Woody" G. Trombley
Assistant Director for Institutional Approval
Virginia State Council for Higher Education
14th Street, James Monroe Building, 9th Floor
Richmond, Virginia 23219
804-225-2600

Information in this entry drawn from:

Eyler, Janet. "Fiscal Incentives to Improve Quality," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

DEFINING MINIMUM EXPENDITURES TO MAINTAIN QUALITY: WASHINGTON

*Quality
*Base resources defined
*Enrollment cap (implicit)
*Base Budget redefined
*Special funds for special purposes

The Problem Washington's economy, like the economy of many other states, declined steeply in the late 1970s and early 1980s. This decline and the legal requirement that Washington maintain a balanced budget created a shortage of funds for all state agencies and public institutions.

The Impetus for Change Legislators felt that state institutions of higher education, particularly institutions that had grown rapidly, were trying to do too much with too little.

The Changes The Washington legislature replaced a single appropriation to higher education with allocations of funds to three program clusters: (1) instructional programs; (2) libraries and student services; and (3) institutional support and plant maintenance and operation. Certain funds were earmarked for specific instructional purposes. For example, for the 1983-85 biennium, $232.5 million were appropriated for instruction, and $9.6 million for replacing and repairing instructional equipment. Institutions could move funds within each broad cluster.

The legislature also assumed that enrollment caps would be set, although it did not specify these caps in the budget. The community college system's budget for the 1983-85 biennium, based on 83,000 full-time-equivalent (FTE) students for each year, specified minimum levels for direct instructional costs and instructional support per FTE. For example, the $232 million appropriated for instruction to the community college system is tied to the following proviso:

> Average basic direct instructional resource per comparable cost student shall not be less than $1,400 per academic year averaged for the biennium. Faculty full-time equivalent entitlements for direct instructional purposes shall not be less than $3,657 per year and shall not fall below the overall student-to-faculty ratio as calculated in the governor's budget request.

Another proviso requires the average "support instructional resources" per student to be at least $452 per year, averaged for the biennium.

The 1984-85 stipulations on enrollment caps and direct instructional cost per FTE stressed quality by maintaining student/faculty ratios. In 1983 the state legislature defined how much these ratios can vary, and it may reduce the limits of variance in the next biennium's appropriation.

The legislature did not view growth in an altogether negative way. A specific legislative provision addressed the possibility that community colleges might need to grow, for example:

> The state board shall review and modify its allocation method for enrollments to recognize any recent change in student demand and needs. In determining demand and needs, the state board shall consider the needs of new industries, with special reference to the semi-conduction industry, and any other state economic growth that community college education can enhance in rural as well as metropolitan areas.

For the 1983-84 biennium, the State Board of Community College Education will receive $3.5 million to fund four high-technology demonstration programs. Four-year colleges and universities also received funds for technological development.

The Results

Community colleges at first felt they might not be able to provide enough access. But since enrollments are down in many community colleges, the system may not reach the average FTE enrollment of 83,000 for the current biennium.

Tying fund allocations to the needs of new businesses will benefit certain institutions more directly than others. For example, Clark Community College, located where the population is increasing and high-tech industries are expanding, would benefit more directly than Grays Harbor College, located in a rural area with a stable population. In the long run, however, all public institutions stand to benefit if the legislature's new allocation system improves economic conditions in the state.

In general, it is still too early to assess the effects of the legislature's efforts to influence institutional behavior by introducing certain priorities and constraints into the budgetary process.

Resources

Harold Jacobsen
Association Director for Financial Services
State Board for Community College Education
319 Seventh Avenue
Olympia, Washington 98504
206-753-3670

James Christiansen
Vice Chancellor for Business and Finance
Seattle Community College District
300 Elliott Avenue, West
P.O. Box C19105
Seattle, Washington 98119
206-587-4160

John Killian
Dean of Administration
Grays Harbor College
Aberdeen, Washington 98520
206-532-9020

Norman Fischer
Associate Coordinator for Financial Analysis
Council for Postsecondary Education
908 East Fifth Avenue, E.W.-11
Olympia, Washington 98504
206-753-3241

Information in this entry drawn from:

Hyatt, James A. and Aurora A. Santiago. "Incentives and Disincentives for Effective Management," ECS Working Paper. Denver, Colo.: Education Commission of the States, 1984.

INDEX

Allocations influenced by program review, 43
Average-cost funding, 13
Base budget redefined, 51, 75
Base resources defined, 75
Computer purchase by institutions, 45
Cost and equity analysis, 35
Cost-related tuition, 13
Decentralized authority
    Governing board, 13, 35, 51
    Governing boards and institutions, 7
    Institutions, 21, 39, 43, 45, 61, 63, 73
Endowed chairs, 29
Enrollment cap (implicit), 75
Enrollment cushion, 69
    Two-year lag, 13
Enrollment factor, 51
Entering students
    Better preparation, 57
    Incentives, 25
Evaluation of instruction, 69
Flexibility, 7, 13, 21, 35, 39, 45, 51
Formal budget model, 51
Higher standards without financial penalty, 69
Incentives for institutions
    Evaluate student performance, 63
    Reallocate, 55
Local control of accounting, 39
Lump-sum appropriations, 7, 35
Merit scholarships, 25
Parity adjustments, 51
Peer comparison, 69
Post-audit, 39
Priority-setting process, 51
Program review, 31, 43, 55, 61
Public/private partnership, 29, 39, 73
Quality, 7, 13, 25, 29, 31, 43, 55, 57, 61, 63, 69, 73, 75
Remedial courses in high schools, 57
Retention of funds
    Overhead, interest, gifts, 45
    Tuition, 7, 21
Special funds for special purposes, 13, 31, 35, 63, 73, 75
Statewide placement tests, 57
Student aid changes, 13
Transfer of funds, 7, 45
Transfer of positions, 45
Tuition set by institutions, 7, 21
Unitary board, 51
Unitary budget, 51

This catalog has been published with funding from the Fund for the Improvement of Postsecondary Education (FIPSE), which also sponsored two projects that preceded preparation of the catalog. The views expressed are not necessarily those of FIPSE, however.

The Education Commission of the States is a nonprofit, nationwide interstate compact formed in 1965. The primary purpose of the commission is to assist governors, state legislators, state education officials and others to develop policies to improve the quality of education at all levels. Forty-eight states, the District of Columbia, American Samoa, Puerto Rico and the Virgin Islands are members. The ECS central offices are at 1860 Lincoln Street, Suite 300, Denver, Colorado 80295. The Washington office is in the Hall of the States, 444 North Capitol Street, N.W., Suite 248, Washington, D.C. 20001.

It is the policy of the Education Commission of the States to take affirmative action to prevent discrimination in its policies, programs and employment practices.

BEST COPY AVAILABLE

Education Commission of the States
1860 Lincoln Street, Suite 300
Denver, Colorado 80295

BEST COPY AVAILABLE